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11 UNITED STATES DISTRICT COURT
12 NORTHERN DISTRICT OF CALIFORNIA
13 OAKLAND DIVISION

14 EPISTAR CORPORATION,

15 Plaintiff,

16 v.

17 PHILIPS LUMILEDS LIGHTING
18 COMPANY, LLC,

19 Defendant.

20 PHILIPS LUMILEDS LIGHTING
21 COMPANY, LLC,

22 Counterclaim Plaintiff,

23 v.

24 EPISTAR CORPORATION,

25 Counterclaim Defendant.

Case No. C 07-5194 CW

Assigned for all purposes to
Honorable Claudia Wilken

**SUPPLEMENTAL BRIEF OF
EPISTAR CORPORATION IN
OPPOSITION TO PHILIPS
LUMILEDS LIGHTING
COMPANY, LLC'S MOTION
FOR JUDGMENT ON THE
PLEADINGS**

Date: August 7, 2008

Time: 2:00 p.m.

Location: Courtroom 2, 4th Floor

Judge: The Hon. Claudia Wilken

1 After accepting the Court's offer to brief the sole issue of whether the
 2 California state litigation privilege applies to Epistar Corp.'s federal Lanham Act
 3 claim, Philips Lumileds Lighting Company, LLC (Lumileds) concedes in its
 4 Supplemental Brief that the privilege does *not* apply. *See Oei v. North Star Capital*
 5 *Acquisitions, LLC*, 486 F. Supp. 2d 1089, 1098 (C.D. Cal. 2006) (holding the
 6 California litigation privilege does not apply to federal causes of action); *Pardi v.*
 7 *Kaiser Foundation Hospital*, 389 F.3d 840, 851 (9th Cir. 2004).

8 Notwithstanding this concession and ignoring the fact that the underlying
 9 motion is for judgment on the pleadings, Lumileds proceeds to argue that Epistar's
 10 Lanham Act claim should instead be barred by an additional "bad faith"
 11 requirement. *See Zenith Electronics Corp. v. Exzec, Inc.*, 182 F.3d 1340 (Fed. Cir.
 12 1999). First, a determination that the false statements by Lumileds (as properly
 13 alleged in the Complaint, *See, e.g.*, ¶¶ 12 and 14-20) were not in bad faith and/or
 14 objectively baseless should not be made on the basis of a motion for judgment on
 15 the pleadings, where the allegations in the pleadings are presumed to be true.
 16 Additionally, Lumileds' belated argument lacks substantive merit in that at least two
 17 of the several false and misleading statements underlying Epistar's Lanham Act
 18 claim were made by Lumileds in "bad faith." Indeed, they were also "objectively
 19 baseless."¹ Plainly, Lumileds' widely disseminated Press Releases in May and June
 20 2007 falsely state that Epistar's products infringe all three of Lumileds' patents and
 21 that "all known versions" of Epistar's OMA, MB and GB products infringe, even

22
 23 ¹ While *Zenith* does require some showing of "bad faith," it does not hold that
 24 the asserted *federal* claims be "objectively baseless." *Zenith*, 182 F.3d at 1354-55.
 25 Both *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367
 26 (Fed. Cir. 2004) and *GP Industries, Inc. v. Eran Industries, Inc.*, 500 F.3d 1369
 27 (Fed. Cir. 2007), cited by Lumileds, are *dicta* in that both involved preemption of
 28 state law causes of action -- not a federal Lanham Act claim. Nonetheless, the false
 and misleading statements made by Lumileds in its May/June 2007 Press Releases
 are both "objectively baseless" and made in "bad faith."

1 though earlier versions of the "OMA" product are protected by a covenant not to
 2 sue and later versions of the "MB" products adopted a non-infringing design after
 3 the ITC hearing.²

4 One such "bad faith" statement contained in a June 2007 Lumileds Press
 5 Release, provided as follows:

6 In particular, Epistar's high-brightness AlInGaP LEDs have been *found*
 7 *to infringe* Philips Lumileds' U.S. Patent 5,008,718 ('718 patent) *and*
 8 *are also infringing* other Philips Lumileds patents on the use of wafer
 9 bonding to manufacture transparent-substrate and mirrored-substrate
 AllGaP LEDs (U.S. Patent Nos. 5,376,580 and 5,502,316).

10 This misleading statement is "objectively baseless" because the ITC never found
 11 infringement of either the '580 or the '316 patents. To the contrary, both patents
 12 were found ***not*** infringed by Epistar's OMA, MB and GB products.

13 A second and even more egregious "bad faith" statement, contained in the
 14 May 24, 2007 letter from Lumileds' counsel attached to the Press Release, provided
 15 as follows:

16 Further, the ITC ruled that ***all of Epistar's accused products,***
 17 ***including all known versions of Epistar's OMA, MB, and GB***
 18 ***AlGaInP LEDs, infringe Philips Lumileds' '718 patent.***

19 This false statement is also plainly "objectively baseless" because Lumileds'
 20 counsel knew that OMA versions covered by the covenant not to sue (which they
 21 previously negotiated) did not infringe and further knew (through at least a January
 22 23, 2007 Epistar press release) that Epistar had revised the design of its MB
 23 products to avoid any issues of infringement. While Lumileds' brief now feigns
 24 ignorance of this January 23rd Press Release, Lumileds certainly had enough
 25 knowledge of it to include it as the basis for its Second Counterclaim for Unfair
 26 Competition filed in this case, at paragraph 18 ("On January 23, 2007, Epistar
 27

28 ² Lumileds' Supplemental Brief does not directly address either of these false and misleading
 statements.

1 issued a press release [including] statements that 'only older versions of [its] MB
2 products' are found to have infringed....") Thus, Lumileds was well aware of
3 Epistar's successful efforts to develop "MB" products which designed around the
4 single '718 patent it was found to infringe. Lumileds and its counsel also certainly
5 knew that at least a dozen of Epistar's prior OMA products were protected by the
6 covenant not to sue contained within the 2004 Settlement Agreement. Contrary to
7 Lumileds' assertion in its Supplemental Brief (p. 2), Epistar never "abandoned this
8 defense," as the parties agreed to litigate the contract issues, including issues
9 relating to the covenant not to sue, in this District Court litigation.

10 Thus, because false statements in the Lumileds' Press Release and the
11 attached May 24th letter were known by Lumileds to be demonstratively incorrect,
12 they are both "objectively baseless" and made in bad faith. Indeed, statements of
13 this type are tantamount to an assertion that Epistar cannot or did not design around
14 Lumileds' patents, and are therefore inherently suspect, thereby making the "bad
15 faith element" much easier to satisfy. *See Zenith*, 182 F.3d at 1354-55
16 ("[S]tatements to the effect that a competitor is incapable of designing around are
17 **inherently suspect**...because most patents can be designed around [and] such a
18 statement appears nearly **impossible** to confirm *a priori*.") (Emphasis in bold;
19 italics in original.)

20 The statements in the Press Release and letter not only establish the requisite
21 level of "bad faith" necessary to maintain Epistar's federal Lanham Act claim, they
22 also establish that the California litigation privilege is inapplicable to Epistar's state
23 law causes of action for unfair competition and intentional interference as well.
24 *See, e.g., Monolithic Power Systems, Inc. v. O2 Micro International, Ltd.*, 2007
25 U.S. Dist. LEXIS 225566 at **23-24 (N.D. Cal. 2007) (holding that pre-litigation
26 communications that are objectively baseless are **not** immune under the California
27 litigation privilege). In the *O2 Micro* case, this Court held that similar unfair
28 competition claims fall outside the California privilege.

1
2 Accordingly, Lumileds' motion for judgment on the pleadings should be
3 denied in its entirety or, alternatively, that Lumileds' motion for judgment on the
4 pleadings be denied as to the federal Lanham Act claim and that Epistar be granted
5 leave to amend the state law claims.

6
7 Dated: August 12, 2008

JONES DAY

8
9 By: 

Lawrence R. LaPorte

10
11 Attorneys for Plaintiff and
12 Counterclaim Defendant
13 EPISTAR CORPORATION
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PROOF OF SERVICE

I, Yolanda G. Ybuan, declare:

I am a citizen of the United States and employed in Los Angeles County, California. I am over the age of eighteen years and not a party to the within-entitled action. My business address is 555 South Flower Street, Fiftieth Floor, Los Angeles, California 90071-2300. On August 12, 2008, I served a copy of the within document(s):

**SUPPLEMENTAL BRIEF OF EPISTAR CORPORATION IN
OPPOSITION TO PHILIPS LUMILEDS LIGHTING
COMPANY, LLC'S MOTION FOR JUDGMENT ON THE
PLEADINGS**

- ☒ by placing the document(s) listed above in a sealed envelope with postage thereon fully prepaid, in the United States mail at Los Angeles, California addressed as set forth below.
- ☐ by transmitting via e-mail or electronic transmission the document(s) listed above to the person(s) at the e-mail address(es) set forth below.

Michael J. Lyons, Esq.
Andrew J. Wu, Esq.
2 Palo Alto Square
3000 El Camino Real, Suite 700
Palo Alto, CA 94306-2121
Fax No.: 650.843.4001

I am readily familiar with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit.

I declare that I am employed in the office of a member of the bar of this court at whose direction the service was made.

Executed on August 12, 2008, at Los Angeles, California.

Yolanda G. Ybuan

Yolanda G. Ybuan